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ABSTRACT

This self-instructional module on merchandising is the eighth in a set of twelve modules designed for small business owner-managers. Competencies for this module are (1) identify the elements of a balanced merchandise plan and (2) implement a workable plan to meet the needs of a business. Provided are information sections on the elements of a merchandise plan (type, quantity, price, quality, timing and place) and on planning a merchandise/service offering; one learning activity (development of a product/service offering plan); three pamphlets from the Small Business Administration ("A Pricing Checklist for Managers," "Stock Control for Small Stores," and "Sweeping Profit Out the Back Door"); and a script from a cassette tape designed for use with this module. (The final report of this project is available as CE 017 858.) (JH)

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ED164788

ACHIEVING SUCCESS



IN SMALL BUSINESS

A self-instruction program
for small business owner-managers

**MERCHANDISING: THE KEY
TO GREATER PROFITS**

CE 017 867

Developed Pursuant to Grant No. 007603754

By

Distributive Education Program Area
Division of Vocational and Technical Education
Virginia Polytechnic Institute and State University
Blacksburg, Virginia 24060

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PURPOSE

Small business owner-managers encounter many problems upon entering business. Expenses are typically high and capital is usually tied up in fixtures or equipment. The business person must be able to generate sufficient sales to compensate for these conditions. The purpose of this module is to expose you to the components which shape a balanced merchandise or service offering. A balanced plan will help to stimulate sales and improve your profit picture.

COMPETENCIES

Upon completion of this module, you will be able to:

1. Identify the elements of a balanced merchandise plan.
2. Implement a workable plan designed to meet the needs of your business.

INSTRUCTIONS

Before reading the material which begins on Page 2, listen to the cassette entitled "Merchandising: The Key to Greater Profits."

SCRIPT

MERCHANDISING: KEY TO GREATER PROFITS

INTRODUCTION:

Customers must have a reason for shopping at a particular place of business. Something must attract them. Successful small business owner-managers have found that the best way to stimulate sales is to offer customers what they want. This can be best achieved through a balanced merchandise or service offering. Let's join Carol Davis, a supervisor at Shayne's Department Store, and her husband Ted, a media representative, as they discuss a frustrating experience they have had with a local record shop.

BACKGROUND - DOOR OPENING AND CLOSING

CAROL ENTERS

Carol: Ted? (PAUSE) Ted, I'm home.

Ted: I'm in the kitchen, Carol.

(PAUSE - AND WALKS TO KITCHEN)

Carol: What are you doing?

Ted: Playing housewife! No! - I got your message that you'd be late so I went ahead and started supper. I thought you might be a little tired.

Carol: (SIGHS) Thanks - my feet are sure tired.

Ted: Why did you have to work late?

Carol: We have experienced a sales decline in the men's department and we're trying to find a solution to the problem. Business just hasn't been that good lately. It seems that some of the regular customers have stopped shopping at our store.

Ted: Speaking of shopping - did you know that the Record Mart is going out of business?

Carol: Going out of business? They just opened a little over a year ago didn't they?

Ted: I think so. I'm not really surprised though. You know, I tried to get that new album by Neal Diamond and they didn't have it.

Carol: Well, about 2 weeks ago I went in there to get Tammy Wynette's latest album, but they didn't have that either. In fact, they don't carry any country and western albums. I assumed that every record store carried a variety of music for different tastes.

Ted: You know what they told me about the Neil Diamond album - they ran out of it. Can you imagine that. The sales person told me they only ordered 5 of those albums. Either the owner doesn't know what he is doing or else he dislikes Neil Diamond.

Carol: He probably prefers another kind of music. But you know, his prices didn't seem to be out of line. In fact, I think they're very competitive. The prices down at the drug store are about \$1.00 higher.

Ted: Yes, but you know I don't ever recall him having a sale, do you?

Carol: Not that I can think of. But, he must really be having a sale now.

Ted: Think so, huh. His prices are not even marked down for his going out of business sale.

Carol: I do know that he has had problems in getting new records on time. Even though he has had good prices, he always seems to be behind the drug store in getting the hit records. Wilco Drug Store always seems to have their records before anyone else in town.

Ted: Maybe that's why he's going out of business.

Carol: I don't really know. It might have been the approach he used to display records. It was often very difficult to find what you wanted.

Ted: I know what you mean. I must have looked for a good ten minutes before a salesperson told me that the record was sold out. They don't have records labeled very well, so you don't know where to find the record you are looking for.

Carol: I know what you mean.

Ted: Did you notice where they keep their 8-track tapes?

Carol: (LAUGHING) Yes - behind the checkout counter. You have to ask the clerk to see them. Most record shops have them displayed in glass cases where you can review the tapes available.

Ted: They sure don't accommodate their customers, do they? Why don't you go down there and straighten them out. (BOTH LAUGH)

Carol: I have to admit, merchandising goods and services can be a real challenge. It's partly an art and partly a science.

Ted: What do you mean?

Carol: Well, you can maintain a model stock list which will help you keep enough merchandise on hand to satisfy normal customer demand. This approach will help you avoid a shortage or a surplus of merchandise.

Ted: The model stock list represents a somewhat scientific approach to merchandising, right?

Carol: Yes, it can be a helpful merchandising tool. However, sometimes you must look beyond the figures and make decisions based on other information. Last summer we anticipated a cold winter and purchased some extra sweaters. We sold everyone of them.

Ted: I can see why you consider merchandising to be both an art and a science.

Carol: It is sometimes difficult to make all the right decisions, but I love the challenge.

Ted: I guess supper is about ready. If you'll help me set the table, we can eat.

Carol: How does it feel to be the cook for a change?

Ted: It feels great, at least for a day. Who know, maybe I have a new career.

Carol: Let me taste the food first, then I'll react to that remark. (PAUSE)

Ted: What are you thinking about?

Carol: We might be experiencing some of the same problems that the Record Mart has. It's obvious they have a merchandising problem - the type of records they carry - the quantities - their timing - layout - these are part of a total merchandising plan. I hope we can solve our merchandising problem in men's wear.

CONCLUSION:

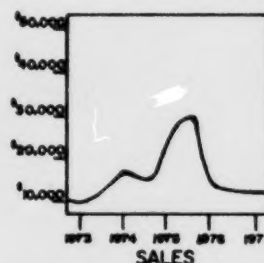
Customers usually patronize those businesses which offer them a genuine value in exchange for the money they spend. Having the desired service or merchandise in the right place, at the right time, and at a reasonable price for comparable quality serves as an incentive to shop for and purchase goods or services from selected businesses. To learn more about the art and science of merchandising, please turn to page 2 of your instructional module.

KEYING YOUR MERCHANDISE OR SERVICE TO PROFIT

What types of merchandise should I offer? How much should I order? When should I order? How should I price it? Questions of this nature are not uncommon among new owner-managers. The lack of realistic answers to these questions, however, have prevented many small business persons from maximizing their profits. The best answer to all the questions combined can be found, however, in a balanced service or merchandise offering.

A balanced merchandise or service offering considers the following elements in relation to the merchandise or services offered for sale.

1. Type
2. Quantity
3. Price
4. Quality
5. Timing
6. Place



Combined, these elements represent the heart of your business. A closer look at these elements will help you better understand how they can serve to improve your profit picture. At this time it is important to note that the merchandise or service assortment you offer should (1) coincide with the desired image you wish to convey to the public, and (2) be suited to the customers you wish to serve.

BALANCING YOUR MERCHANDISE OR SERVICE OFFERING

Type

There are certain items that all businesses of your type must offer. For instance, if you own an ice cream store everyone expects that you sell vanilla, chocolate, and strawberry ice cream. In addition, you should offer items which distinguish you from your competition. For example, Daisy's Ice Cream Parlor offers a special ice cream birthday cake which has become a popular sales item.

Quantity

Knowing which merchandise or service is selling and how much is available for sale is essential for profitable business operations. A proven method used to obtain this information is a stock plan. A stock plan commonly used by small business firms is a model stock plan. A model stock plan identifies the range of items you wish to control or maintain in inventory. A simple illustration will explain how this works.

A local men's shoe store, for example, has an established policy of offering their customers a broad selection of shoe sizes. In keeping with this image, they recently ran an advertisement featuring 84 different shoe sizes; a selection broad enough to accommodate any foot size.

MODEL STOCK PLAN

ITEM	COST
STOCK	PRICE

Price

There is no steadfast rule for establishing prices. However, successful small business persons develop a pricing strategy (1) suited to their business; (2) covering all their expenses; and (3) providing them with a reasonable profit. Certain factors to be considered in establishing your prices are:

1. Cost of goods or service - Your selling price should not be lower than cost.
2. Merchandise or service quality - Customers generally associate price with quality.
3. Supply and demand - If your supply of a certain item is high and the demand is low, you will want to drop the price to stimulate sales. On the other hand, if the demand is high and the supply is limited, you will want to raise prices.
4. Competition - Customers expect to pay the same price for comparable service or merchandise. Your prices should not be significantly higher or lower than the competition unless there is a logical reason.
5. Customers - If your prices are out of line customers will be the first to let you know. Comparable prices and quality will help build customer loyalty.

Markdowns

A problem encountered by many new entrepreneurs concerns reductions in the retail price of merchandise, or markdowns. Many new business owner-managers elect to take markdowns at inopportune times, or they fail to take them at all for fear of losing money. Markdowns are often necessary due to a variety of reasons. Keep in mind the purpose of markdowns is to sell merchandise.

The example which follows illustrates how a markdown can profitably sell the merchandise.



David and Gary own competing hardware stores. Both purchased lawnmowers which arrived at their stores in May. The retail price of each lawnmower was \$200. Unable to sell all of his mowers during the months of June and July, David thought seriously of reducing the price of each remaining mower by 15%. He ultimately decided against it because he feared losing too much money. Instead, he decided to store them until the following spring. Gary, on the other hand, decided upon a 20% markdown for each mower. He was successful in selling the lawnmowers and subsequently used the cash to purchase a line of snowblowers. Gary

proved to be a shrewd business person in that he used the markdown to salvage cash from a slow selling item and reinvested the cash in another merchandise line.

Two key points to remember in considering markdowns are:

1. Be alert to slow-moving items.
2. Make your initial markdowns large enough to stimulate sales (at least 20% in most instances).

Quality

Today's consumers are shrewd shoppers with an eye for value, therefore, the quality of the merchandise or service you offer must be consistent with the prices you charge and the image you convey. To better illustrate, Rod Mullins operates a service station at a good location in the city. In recent weeks, however, business hasn't been so good. Rod added a line of bicycles which have absorbed a considerable portion of his time. He is now unable to devote as much time to running the service station. As a consequence, many of his regular customers have taken their business elsewhere. Rod has lost sight of the need to offer quality service to his customers on a continuous basis.

Timing

When you enter a plant shop at Easter time, you expect to be able to purchase an Easter lily. Similarly, you expect to be able to find a Father's Day card in June. The point is that customers expect to find seasonal or special occasion items at the appropriate time. As a merchant, you must anticipate customer buying patterns to successfully serve them.

If your line of seeds and garden tools have not arrived for the spring planting season, you can be sure shoppers will go elsewhere to obtain them. Plan for your seasonal merchandise or service well in advance so that it is available when the demand is greatest.

Place

The layout of your business and the placement or location of displays should be designed to accommodate your customers, and provide easy access throughout the firm. For example:

1. High profit items should be located in heavily traveled areas.
2. Unique items which people would normally browse for should be located toward the back of the business.
3. Sale items and advertised specials should be conspicuously displayed.



Successful business owner-managers use a balanced merchandise or service plan because they know it will stimulate sales. For a new business owner-manager, a balanced plan is critical to business survival.

PLANNING YOUR MERCHANDISE/SERVICE OFFERING

In order to present a balanced merchandise/service offering to your customers it is necessary to develop a plan. The model stock plan is a tool used by small business owner-managers to balance their offering on the basis of type, quality, price, and quantity of products or services. Decisions made in developing the model stock plan must be based upon customer needs. The development of a plan for a paint and wall-paper store is shown below.

- Step 1. Decide upon the major classifications of products and the percentage of total inventory represented by each class.

<u>Classification</u>	<u>Percentage of Total Model Stock</u>	<u>Dollars</u>
Paint	40%	\$30,000
Wallpaper	40%	\$30,000
Accessories	20%	\$15,000
Total Model Stock	100%	<u>\$75,000</u>

Step 2. For each classification determine type, price, range and number of units to be offered. The paint classification could be planned as follows:

	(a)	(b)	(d)	(c)
<u>Type (Use)</u>		<u>Price</u>	<u>Units</u>	<u>Dollars</u>
Interior Latex	50%	\$11-13	250	\$3,000
		14-16	270	4,000
		17-19	445	8,000
				<u>\$15,000</u>
Interior Oil Base	10%	14-16	65	1,000
		21-22	100	2,000
				<u>\$3,000</u>
Exterior Latex	40%	17-19	110	2,000
		20-22	190	4,000
		23-25	250	6,000
				<u>\$12,000</u>
TOTAL				<u>\$30,000</u>

The owner decides (a) upon the percentage of the offering for each type of paint; (b) the price range for each type; (c) dollar amount to be offered at each price; and (d) then determines the number of units required by dividing the dollar amount by the average price for each price range.

This example could be carried even further by planning colors to be offered for each paint type and price range. This type of planning aids an owner-manager in developing a planned product/service offering.

NOTE: Please turn to page 7 and complete learning activity number one.

LEARNING ACTIVITY NUMBER ONE

The purpose of this activity is to provide you with an opportunity to develop a planned product/service offering.

- I. In the form below determine for your business (1) The major classifications of product/service offerings (Paint, Wallpaper, and Accessories were used as an example in the written materials) (2) The percentage of total inventory represented by each classification and (3) The dollar amount to be carried in each classification.

<u>CLASSIFICATION</u>	<u>PERCENTAGE OF TOTAL MODEL STOCK</u>	<u>DOLLARS</u>
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- II. For each classification listed above determine in order (1) The types to be offered (2) Percentage of the offering for each type (3) Price ranges (4) Total dollar amount and (5) Number of units in each price range.

<u>Type</u>	<u>Percent</u>	<u>Price</u>	<u>Dollars</u>	<u>Units</u>
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NOTE: Please turn to page 8 and review the preferred reading list.

PREFERRED READING LIST

This instructional module is designed to introduce key concepts regarding merchandising practices. For a more in-depth examination of this topic area, study the following preferred readings.

SMALL BUSINESS ADMINISTRATION SMALL MARKETERS AIDS

- #105 "A Pricing Checklist For Managers"
- #123 "Stock Control For Small Stores"
- #138 "Sweeping Profit Out the Back Door"

NOTE: You have now completed the module requirements. You may wish to review this module or advance to another module.



SMALL BUSINESS ADMINISTRATION

U. S. Government Agency

Small Marketers Aids

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A PRICING CHECKLIST FOR MANAGERS

By Joseph D. O'Brien

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Boston College, Boston, Massachusetts

SUMMARY

Pricing is a basic factor in insuring the profitable operations of small retailers. Pricing plans, objectives, and policies are important phases of management, and to set effective prices the owner-manager must: (1) know his costs and (2) understand buyer motivation, timing, and competitors. Nonpricing practices can also be used to attract customers.

The questions in this Aid are designed to help small marketers in evaluating their pricing policies and practices.

EXAMINING COSTS, SALES VOLUME, AND PROFITS

The questions in this part should be helpful when you look at prices from the viewpoint of costs, sales volume, and profits.

Costs and Prices

The small retailer who sets the price for an item by applying a standard markup may be overlooking certain cost factors which are connected with that item. The following questions are designed to help you gather information which should be helpful when you are determining prices on specific types of items.

- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 1. Do you know which of your operating costs remain the same regardless of sales volume? | _____ | _____ |
| 2. Do you know which of your operating costs decrease percentage-wise as your sales volume increases? | _____ | _____ |
| 3. Have you ever figured out the breakeven point for your items selling at varying price levels? | _____ | _____ |
| 4. Do you look behind high gross margin percentages? (For example, a product with a high gross margin, may also be a slow turnover item with high handling costs. Thus it may be less profitable than lower margin items which turn over fast.) | _____ | _____ |
| 5. When you select items for price reductions, do you project the effects on profits? (For example, if a food marketer considers whether to run canned ham or rump steak on sale, an important cost factor is labor. Practically none is involved in featuring canned ham; however, a rump steak sale requires the skill of a meat-cutter and this labor cost might mean little or no profits.) | _____ | _____ |

Pricing and Sales Volume

An effective pricing program should also consider sales volume. For example, high prices might limit your sales volume while low prices might result in a large, but unprofitable volume. The following questions should be helpful in determining what is right for your situation.

- | | | |
|---|-------|-------|
| 6. Have you considered setting a sales volume goal and then studying to see if your prices will help you reach it? | _____ | _____ |
| 7. Have you set a target of a certain number of new customers for next year? (If so, how can pricing help you to get them?) | _____ | _____ |

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- | | <u>Yes</u> | <u>No</u> |
|---|------------|-----------|
| 8. Should you limit the quantities of low-margin items which any one customer can buy when they are on sale? (If so, will you advertise this policy?) | _____ | _____ |
| 9. What is your policy when a sale item is sold out before the end of the advertised period? Do you allow disappointed customers to buy the item later at the sale price? | _____ | _____ |

Pricing and Profits

Prices should help bring in sales which are profitable over the long pull. The following questions are designed to help you think about pricing policies and their effect on your annual profits.

- | | | |
|---|-------|-------|
| 10. Do you have all the facts on costs, sales, and competitive behavior? | _____ | _____ |
| 11. Do you set prices with the hope of accomplishing definite objectives, such as a 1-percent profit increase over last year? | _____ | _____ |
| 12. Have you set a given level of profits in dollars and in percent of sales? | _____ | _____ |
| 13. Do you keep records which will give you the needed facts on profits, losses, and prices? | _____ | _____ |
| 14. Do you review your pricing practices periodically to make sure that they are helping to achieve your profit goals? | _____ | _____ |

JUDGING THE BUYER, TIMING, AND COMPETITORS

The questions in this part are designed to help you check your practices for judging the buyer (your customers), your timing, and your competitors.

The Buyer and Pricing Strategy

After you have your facts on costs, the next point must be the CUSTOMER--whether you are changing a price, putting in a new item, or checking out your present price practices. Knowledge of your customers helps you to determine how to vary prices in order to get the average gross margin you need for making a profit. (For example, to get an average gross margin of 35 percent, some retailers put a low markup--10 percent, for instance--on items which they promote as traffic builders and use high markup--sometimes as much as 60 percent--on slow-moving items.) The following questions should be helpful in checking your knowledge about your customers.

- | | | |
|---|-------|-------|
| 15. Do you know whether your customers shop around and for what items? | _____ | _____ |
| 16. Do you know how your customers make their comparisons? By reading newspaper ads? Store shopping? Hearsay? | _____ | _____ |
| 17. Are you trying to appeal to customers who buy on price alone? To those who buy on quality alone? To those who combine the two? | _____ | _____ |
| 18. Do any of your customers tell you that your prices are in line with those of your competitors? Higher? Lower? | _____ | _____ |
| 19. Do you know which item (or types of items) your customers call for even though you raise the price? | _____ | _____ |
| 20. Do you know which items (or types of items) your customers leave on your shelves when you raise the price? | _____ | _____ |
| 21. Do certain items seem to appeal to customers more than others when you run weekend, clearance, or special-days sales? | _____ | _____ |
| 22. Have you used your individual sales records to classify your present customers according to the volume of their purchases? | _____ | _____ |
| 23. Will your customers buy more if you use multiple pricing? (For example, 3 for 39 cents for products with rapid turnover.) | _____ | _____ |
| 24. Do your customers respond to odd prices more readily than even prices, for example, 99 cents rather than \$1? | _____ | _____ |
| 25. Have you decided on a pricing strategy to create a favorable price image with your customers? (For example, a retailer with 8,000 different items might decide to make a full margin on all medium or slow movers while featuring--at low price levels--the remaining fast movers.) | _____ | _____ |
| 26. If you are trying to build a quality price image, do your individual customer records, such as charge account statements, show that you are selling a larger number of higher priced items than you were 12 months ago? | _____ | _____ |
| 27. Do your records of individual customer accounts and your observations of customer behavior in the store show price as the important | _____ | _____ |

factor in their buying? Service? Assortments? Some other consideration?

Yes No

Time and Pricing

Effective merchandising means that you have the right product, at the right place, at the right price, and at the right time. All are important, but timing is the critical element for the small retailer. The following questions should be helpful in determining what is the right time for you to adjust prices.

28. Are you a "leader" or a "follower" in announcing your price reductions? (The follower, even though he matches his competitors, creates a negative impression on his customers.)
29. Have you studied your competitors to see whether they follow any sort of pattern when making price changes? (For example, do some of them run clearance sales earlier than others?)
30. Is there a pattern to the kinds or items which competitors promote at lower prices at certain times of the month or year?
31. Have you decided whether it is better to take early markdowns on seasonal or style goods or to run a clearance sale at the end of the season?
32. Have you made regular annual sales, such as Anniversary Sales, Fall Clearance, or Holiday Cleanup, so popular that many customers wait for them rather than buying in season?
33. When you change a price, do you make sure that all customers know about it through price tags and so on?
34. Do you try to time price reductions so they can be promoted in your advertising?

Competition and Pricing

When you set prices, you have to consider how your competitors might react to your prices. The starting place is learning as much as you can about their price structures. The following questions are designed to help you check out this phase of pricing.

35. Do you use all the available channels of information to keep you up to date on your competitors' price policies? (Some useful sources of information are: things your customers tell you; the competitor's price list and catalogs, if he uses them; his advertising; reports from your suppliers; trade paper studies; and shoppers employed by you.)
36. Should your policy be to try always to sell above or below competition? Only to meet it?
37. Is there a pattern to the way your competitors respond to your price cuts?
38. Have you lost certain customers because competitors match your price cuts?
39. Is the leader pricing of your competitors affecting your sales volume to such an extent that you must alter your pricing policy on individual items (or types of items) of merchandise?
40. Do you realize that no two competitors have identical cost curves? (This difference in costs means that certain price levels may be profitable for you but unprofitable for your competitor or vice versa.)

PRACTICES WHICH CAN HELP OFFSET PRICE

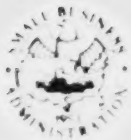
Some small retailers take advantage of the fact that price is not always the determining factor in making a sale. They supply customer services and offer other inducements to offset the effect of competitors' lower prices. Delivery service is an example. Comfortable shopper's meeting place is another. The following questions are designed to help you take a look at some of these practices.

41. Do the items or services which you sell have advantages for which customers are willing to pay a little more?
42. From personal observation of customer behavior in your store can you tell about how much more customers will pay for such advantages?
43. Should you change your services so as to create an advantage for which your customers will be willing to pay?
44. Does your advertising emphasize customer benefits rather than price?

Yes No

45. Are you using the most common nonprice competitive tools? (For example, have you tried to alter your product or service to the existing market? Have you tried stamps, bonus purchase gifts, or other plans for building repeat business?)
46. Should policies on returned goods be changed so as to impress your customers better?
47. If you sell repair services, have you checked out your guarantee policy?
48. Should you alter assortments of merchandise to increase sales?

_____	_____
_____	_____
_____	_____
_____	_____



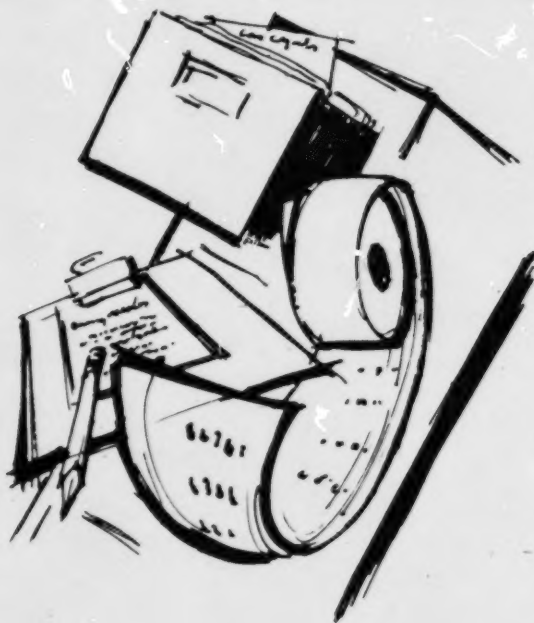
SMALL MARKETERS AIDS

WASHINGTON, D.C.

No. 123

For Small Stores

BY EDWIN L. HARLING



Maintaining effective control over stock is important in all kinds and sizes of retail operations, but it can be critical in a small one. At best, the owner-manager of a small retail store flirts with loss when he lets his stock become unbalanced.

The type of merchandise you handle will largely determine the kind and amount of paperwork needed for effective stock control. For example, control of perishables—such as in a delicatessen—requires no paperwork. Stocks are controlled visually. Many deliveries—such as milk and bread—are daily, and others are frequent. In addition, the suppliers' routemen have a self-interest in helping keep stocks fresh.

But even so, the owner-manager may need some sort of reminder—perhaps a note on his calendar—so he can make periodic checks. The important thing is to watch for changing customer demands requiring changes in your purchases.

The situation is different, though, with parts inventory in a service operation and with sizes and styles in an apparel store. For example, the owner-manager of a shop that specializes in motor tuneup and speedometer repair work may keep track of some of the parts he uses every day with little effort. But what about those he uses only once a month? Some sort of record is necessary if the right parts are to be on hand when he needs them.

In shoes, ladies ready-to-wear, and other soft goods stores, style, color, and sizes complicate the problem of stock control. A great deal of paper work may be necessary in order to serve customers properly and to prevent over or underbuying.

Stock control is necessary if the small retailer is to offer his customers a balanced assortment. A system need not be elaborate. It should enable the small retailer to determine what needs to be ordered on the basis of: (1) what is on hand, (2) what is on order, and (3) what has been sold.

SUMMARY

The kind and amount of paperwork necessary for effective stock control depends largely on the type of merchandise. This *Aid* emphasizes unit control rather than control by merchandise classification. Unit control provides information about: breadth of assortment, depth of assortment, number of brands stocked, and quality of line stocked.

The author, Edwin L. Harling, is research director, Rich's, Inc., Atlanta, Ga.

THE BASIC PICTURE

The owner-manager of almost any small store can sketch the basic picture of stock control. It involves four facts: (1) what you have on hand, (2) what you have on order, (3) what you have sold, and (4) what you need to order.

But whether these facts are used to achieve effective control is another story. A memory lapse on any of them can mean being out of stock or overstocked on an item, a style, a color, or a size.

WHAT KIND OF RECORDS?

Stock control records help prevent memory lapses. They eliminate the need for carrying details—especially on styles, colors, and sizes—in one's head, a trying task. They provide a container into which the owner-manager can deposit details.

The kinds and number of control records which an owner-manager uses depend on the amount of details that are needed. Stock control system may be achieved either by counting stock or by counting sales. Either way, a model stock list is required.

THE MODEL STOCK LIST

A model stock list is the first step in setting up a replenishment system for merchandise that involves styles, colors, and sizes. You prepare a list of all the items you want to control.

The list should include "model stock" quantities. These quantities are the amounts needed in order to maintain an "in stock" position for a certain period—usually a number of weeks.

You can use a simple formula to determine the period of time to be covered by the model quantity. It is: $\text{Reorder Period} + \text{Delivery Period} = \text{Number of Weeks}$.

Suppose that you order shirts every 6 weeks and delivery from the vendor takes 2 weeks, your number of weeks to be covered would be 8 (reorder period of 6 weeks + delivery period of 2 weeks = 8 weeks). Suppose further that you sell an average of 10 shirts a week. In this example, you would need 80 (10×8 weeks) to maintain an in stock on shirts.

When size is a factor, as in shirts, the necessary size run should be noted on the model stock list. You know from experience which sizes of an item are best sellers, which are medium sellers, and which are low sellers. Best selling colors can also be noted.

Some model stock lists—women's clothing, for example—include a special section. This section is called *maintained selection items*. Its purpose is to flag items that change with the fashion.

The term, "maintained selection items," implies groups of items which can be substituted for each other. Girl's blouses provide an example. When they reach the reorder point, you may need to order a new style to replace the old style. Sometimes, this means ordering from a different supplier because the old one does not yet have the new style. Examples of other *selection* item groups are infants' wear, and children's wearing apparel.

Merchandise of the *selection* type should be listed on the reorder records in groups by classification, item, and price. Such a listing will insure stocking a given price line at all times with proper merchandise. At the same time, it provides a record of the sales activity on the individual style.

COUNTING STOCKS OR SALES?

Counting is the basis for getting the information necessary to effective control. You can count stock on a periodic basis or you can count it daily by counting sales.

Which is best for your situation depends on the kind of merchandise you carry and the amount of work involved for you and your salespeople. Your goal should be to use a method which will provide up-to-date information at the most economical cost.

IF YOU COUNT STOCK

Your situation may lend itself to counting the stock on a periodic basis. If so, you would use what is called "the rotated method" and record the information on cards.

In the rotated method of stock control, you use *rotated unit control cards*. The format varies according to the kind of merchandise, but the kind of information is the same. With such a card, you keep track of an item, such as shoes by listing: (1) what is on hand, (2) what is ordered, (3) what has been received, and (4) what has been sold. Once every 2 weeks, the stock is counted to determine how well an item sold is selling.

If sales are dragging, you may decide to close out the item. If sales are normal, you would order the normal fill-ins. On the other hand, the stock count and other information on the card may reveal that sales are greater than activity on the sales floor has indicated. If so, your decision may be to increase the filling order and plan to promote the item.

The principle behind the rotated method is: $\text{Old Inventory} + \text{Purchases} - \text{New Inventory} = \text{Sales}$. In this formula, you can substitute the word "disappearance" for the word "sales." Disappearance represents shoplifting, inaccuracies in counting inventory, and sales.

IF YOU COUNT SALES

The other method for controlling stock is the perpetual method. In it, stocks are calculated from the store's recorded sales.

If you use this method, you have to keep track of sales when they are made, on an item basis. Its usefulness depends on whether the device you use captures the information with a minimum of effort and chance for error. The owner-manager with a fairly large sales volume (some experts say \$200,000 annually) should check the possibility of using a computer service center to count sales and create up-to-date stock records. Such data processing may be more economical than maintaining the records manually.

Even when electronic data processing is not used, cash register tape may be such a device for capturing the needed information. If a sales count is needed on only a few items, you could check the possibility of using your register to get the information. For example, "Key A" might stand for one item number, "B" for another, and so on.

Sales slips provide another device for recording the item sales. Still another is the price ticket which can be detached when the item is sold.

Whether the information comes from register tape, sales slips, or price tickets, it has to be related to your stocks, specifically to particular classes of merchandise. A drug store, for example, needs sales information on prescriptions, proprietaries, fountain, sundries, tobacco, confections, magazines, and toiletries. The best way is to summarize the information and post it daily to your stock records.

These up-to-date stock records provide the information you need for ordering fill-ins. You review them on a periodic basis—once every 2 weeks, for example—and reorder as needed. One disadvantage is that errors can creep into the posting of the daily sales. However, adjustments can be made through a physical count of stocks every so often.

If you have only one or two items that need unit control, you might want to work with price tickets. At the time of the sale, detach the ticket and file it for later posting on your record. The balance on hand after the posting will determine what you need to reorder.

The principle behind the perpetual method is: $\text{Old Inventory} + \text{Purchases} - \text{Sales} = \text{New Inventory}$.

PREVENTING EXCESS STOCKS

In a small store, preventing excess stock serves two purposes. One is the maintenance of a balanced assortment which allows the store to serve customers. The other is the assurance that an excessive amount of working capital is not tied up in merchandise.

Open-to-buy is the key to keeping stocks in line. Open-to-buy is the amount of merchandise (in units or dollars) that you need to receive into stock during a certain period. This *Aid* discusses it in terms of units.

The period may be the selling season that is customary for a certain line of merchandise. Or it may be a time-span that is set by the owner-manager to fit his particular situation.

At the start of the period, a merchandise classification—such as blouses—is open to receive the number of blouses that is necessary to achieve the sales you expect to have in that period. Suppose, for example, that you expect to sell 200 blouses. To start the season, you buy and receive 160 blouses. Thus you are open to buy an additional 40 blouses.

The 40 is your control figure when you order fill-in stock. As long as you buy no more than 40 during the season, your investment in inventory for blouses will be no greater than you had planned.

But what happens if customers make a run on the blouses? If sales activity is tremendous early in the season and you can get a new stock within the next several weeks, the question is a merchandising one. How hot is the hot item? Hot enough to repeat the landslide activity? Repeat it halfway? Or is it a freak situation that will have cooled off before new stocks can be received and promoted?

After you have decided how heavily to restock the item, you set a new open-to-buy figure. Living within it keeps your inventory investment within your plans and prevents an excessive stock which might have to be marked down at the end of the season.

A side benefit from stock control records is that they are helpful in delegating work. They provide concrete tools which you can use in training an employee to care for details, such as counting stock.

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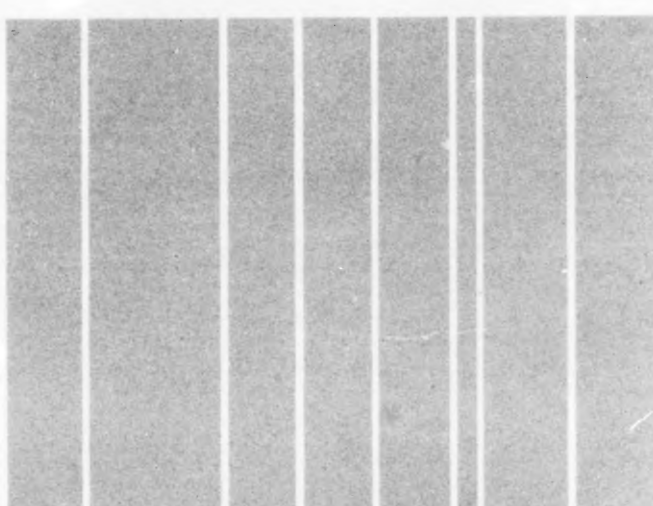
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**SWEEPING
PROFIT**

**OUT
THE
BACK
DOOR**

By Frank J. Komenda
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SUMMARY

Most small retailers are keenly aware of big expense items and keep them under control. These big items rarely become problems. Rather, it is the small, often ignored losses—such as sweeping a few nails out with the trash—that accumulate and eat into profit.

This *Aid* discusses small losses that result from damaged merchandise, "in-store pilferage," handling "penny stuff," and pricing practices. Suggestions are given to help control them.

"Why is he doing that?" Jim Jones,* owner-manager of a hardware store, thought when he saw his handyman picking through the day's sweepings. He stepped over and asked, "Bill, why are you doing that?"

"To find nails, screws, and other loose items before I sweep the pile out the door and into the trash can," Bill replied.

Later in this *Aid*, you'll see what Bill did with the items he salvaged. For now, suffice it to say that he was helping with a problem that's common to most stores.

That problem is preventing small losses from carelessness, losses that can mount into real drains on profit.

"But my time's too valuable to spend looking through the trash," some owner-managers say.

Of course, it is. The job of the owner-manager is to know what is being wasted, in what amounts, and how often. Are careless employees, so to speak, sweeping profit out the back door?

With that question in mind, look at your operation. If you find wasteful practices, you may want to use them in a training device for your assistant. Tom Rodney did just that.

To instruct his clerks in economizing on heat, he "posted notices," like: "The heating bill last year was ____; please close the door." And outside the storeroom he posted: "The electric bill last year was ____! Please turn off the storeroom light."

Wasteful practices on utilities may not be a problem in your store. But damaged merchandise may be. Many owner-managers have trouble with it.

DAMAGED MERCHANDISE

Ideally, you should never have soiled or damaged goods. Nevertheless, you can't always help it. For example, a clerk or a delivery man rams a handtruck into a display and knocks it apart. The result: damaged merchandise. Some of this may be sold at a markdown. Some may be smashed beyond salvaging.

Sometimes, merchandise becomes soiled because customers paw over it.

At other times, clerks are responsible for damage to stock on the shelves. They fail to dust items. Or they soil cartons and packages through improper marking and other careless practices.

What can you do to reduce losses from damaged and soiled merchandise?

The key is in layout of counters and displays, in stocking of shelves, and in training of employees.

Accidents to displays can be reduced when you provide sufficient aisle space. Aisles should be wide enough to allow clerks, customers, and delivery men (if they have to use the front door) to move freely. Thus you reduce the possibility of stock's being knocked to the floor.

* Names in *Aids* are disguised.

Merchandise can be protected by placing it properly on shelves that will discourage its being mishandled or handled too much.

Rotate stock when refilling shelves, counters, and displays. Selling all merchandise on a "first-in, first-out" basis moves the oldest items first and prevents them from becoming shopworn.

Unless your store is a one-man operation, you have to rely on employees to do the tasks necessary to keep merchandise in good shape. Teach them the proper techniques for handling your type of stock. You may also have to work to correct attitudes. Some employees feel that the wholesaler will make good on damaged merchandise or they don't realize the number of sales dollars it takes to regain the pennies lost on a soiled or damaged item.

IN-STORE WASTE

Another area of "sweeping profit out the back door" is wasteful housekeeping -- "in-store pilferage." Such "stealing" is not the type of pilferage about which you usually think.

Rather, "in-store pilferage" is caused by careless or lazy employees. They forget to return items which they use for maintenance to their proper place. An employee finishes using a screwdriver, for example, just as a customer approaches him. Intending to return the screwdriver to its storage place later, the employee drops it in his pocket. But in the press of business he doesn't think of the tool again until he empties his pockets on his dresser at home.

Often it is easier for an employee to indulge in a wasteful housekeeping practice than to help the owner-manager save nickles and dimes. For example, he opens a new can of cleaner rather than going to the trouble of using up the last half ounce or so in the old can. Or not finding the broom he steps down the street and buys a new one. Or treating pencils as though they were cocktail toothpicks, he mislays several each day.

The dollars and cents lost because of careless or lazy employees can be significant, as the owner of one hardware store learned. He found that his employees had set up three separate storage areas for hand tools for store use. Each area contained an identical set of tools valued at approximately \$100 retail per set. Thus, \$300 was tied up, rather than \$100.

In-store pilferage can be controlled through procedures which help to channel employees' habits.

To this end, make up an inventory of materials for "store use only." Place them in an accessible spot and insist that only these items be used.

When a new item needs to be added or an old one replaced, have the employee make out a petty cash slip, charging the item to the store. This slip gives you an accounting of a bona fide store expense. It also provides an extra step in removing that item from the shelf. Rather than writing the petty cash slip, the employee will go get the item already earmarked for the job.

A new broom may sweep clean, but it can be an expensive cleaning if that new broom is pulled from the shelf every day or if the employee frequently steps down the street and buys a new broom because the old one has been misplaced.

Speaking of brooms, here's what happened to Bill, the hardware clerk whom his boss found picking nails and screws from the day's sweeping.

To his boss's question, "What are you doing with those?" Bill replied, "I put those nails and screws in there." He pointed to a box across the room.

As Jim walked toward the box, Bill went on, "I use them in maintenance. I don't have to take them off the shelf."

Jim looked in the box. It was nearly full. "It'll take a long time to use all that on maintenance," he said. Then he added, "There ought to be some way we can salvage that pile. Think about it tonight."

HANDLING "PENNY STUFF"

The store that sells small items can be handicapped by them, especially if items which sell for only a few cents are sold singly. The loss here is in tying up a clerk for one or two cents worth of sales. Rather than do that some hardware stores, for example, used to give away small goods, such as screws, if the customer would serve himself.

Then some merchants hit on the idea of pricing small items by the dozen and encouraging customers to buy from bins. Bags and a crayon at the display enable the customer to mark, on the honor system, the price of his selection.

Prepacking several items in a bag, or envelope, offers another way to reduce the loss in handling "penny stuff." Some items, such as candy, pencils, and inexpensive pens, are put into multiple-packs at the factory. You may have items which you can package in the same way.

In addition to being attractive, multiple-packs are easier to keep clean than a display made upon single small items. Such packs also help to prevent mixed-up merchandise. Moreover, they are easier to count for stock control purposes than a mass of small items.

SALVAGING "THROW-AWAYS"

The small merchant who throws away the cartons in which he receives his goods may be "sweeping profit out the back door." Sometimes, he can use such cartons for packing or delivery, instead of paper bags which he has to buy. For example, some grocers use these cardboard boxes for home deliveries.

For some other goods such as potted plants, fragile items, and glassware, cardboard boxes actually make better containers than paper bags. In addition, there's always the chance that while you're boxing a customer's order, he may pick up an impulse item or two close to the checkout counter to fill his cardboard box.

If you sell potted plants, don't throw away the broken ones. Slips from them can be used to start new ones. They can be planted in "throwaways", anything from paper cups to an "old brown jug."

Look for opportunities to salvage "discards," such as "complimentary" calendars, cards, posters, fancy papers, foils, and odds-and-ends of fabric. They, for example, can be used in display and show window work.

You may be able to please customers, who are looking for items to decorate, by selling them containers such as pails and wooden kegs in which your regular merchandise was delivered. For example, some housewives decorate discarded items like old country milk cans to make planters or umbrella stands. You may remember, too, the chicken feed sacks from which housewives once made tea towels, window drapes, and children's dresses. Well, other merchant "throw-aways" are still valuable to housewives, for various purposes.

In term of building customer goodwill, you can also read hobby magazines or contact local art and craft groups to see whether they can use items for projects. Boy Scouts and Girl Scouts often use old egg boxes, dowels, styrofoam, cigar boxes, ice cream sticks, paper

cups, bleach jugs, and other items. Some groups buy, but goodwill from giveaways is a considerable business asset.

Many "throwaways" can often be sold too; in some communities a dealer's market exists for discarded boxes, burlap, and barrels.

Glass that might be discarded also lends itself to use in decoration. You've probably eaten in restaurants where the owner used throwaway bottles (that he had tallow-covered) as candle-holders for his lighting. Perhaps you can sometimes place colored bottles and other discarded glass items in windows or shelf-display for highlights.

PRICING PRACTICES

Some retailers, in effect, "sweep profit out the back door" by careless pricing. For example, when marking new stock, their clerks copy the price from the items that are already on the shelf.

All new items should be priced from the invoice costs, especially when prices are rising. Some additional points to keep in mind on pricing are:

- For items already on the self, change the price to reflect rising costs of merchandise purchased for re-stocking.
- For items that you markdown for a "sale," be sure to re-price them after the sale is over. The longer the "sale" price stays on, the longer the regular markup is lost. Also, articles that are perpetually "on sale" lose their customer appeal.

JIM'S AND BILL'S SOLUTION

Let's return to Jim and Bill in the hardware store for a few moments. Overnight Jim thought about ways to salvage the items—nails and screws—picked out of the sweepings. He decided that there was no way of keeping them from being dropped on the floor, but there was a way of salvaging them.

The next morning he put the accumulation of nails, screws, and bolts back into stock. He weighed this accumulation into see-through plastic bags, gave them a special shelf and labeled them "assorted fasteners." In effect, he turned a pile of "junk" into a new item, and now does about \$100 worth of business per year in "assorted fasteners."

Sometimes, as Jim Jones discovered, items that find their way into the trash can be put back on the shelves and sold. However, the point to keep in mind is that such salvaged items stop a loss rather than earn a profit. Items that are sorted properly and sold individually, of course, bring a better price than odds-and-ends sold grab-bag style.

DEMONSTRATE WITH PENNIES

In training employees to do the things that are necessary in reducing waste, demonstration can be helpful. For example, try demonstrating the results of their "sweeping profit out the back door." Get your people together and throw 100 pennies on the table.

Your objective in doing so is to show them that it is not pennies you have been talking about saving but profit measured in percents of a dollar.

From the scattered pile of pennies, push aside pennies to show your cost of goods sold and your other costs of doing business.

Then show how few pennies are left for profit after expenses are paid. Thus, you dramatize the need to watch the little things that eat at profit.

Some retailers may get a side benefit from such a demonstration. It may emphasize in their own minds the need for tight control of their operations. The old saying—"Watch the pennies, and the dollars will take care of themselves"—is still true.

FOR FURTHER INFORMATION

Readers interested in exploring further the subject of reducing losses may wish to consult the references indicated below. This list is necessarily brief and selective. However, no slight is intended toward authors whose works are not mentioned.

"A Pricing Checklist for Managers," *Small Marketers Aids* No. 105. Free from SBA, Washington, D.C. 20416 (or nearest SBA Office).

"Are You Kidding Yourself About Your Profits?" *Small Marketers Aids* No. 25. Free from SBA, Washington, D.C. 20416 (or nearest SBA Office).

"Stimulating Impulse Buying for Increased Sales," *Small Marketers Aids* No. 109. Free from SBA, Washington, D.C. 20416 (or nearest SBA Office).

"Analyze Your Records to Reduce Costs," *Small Marketers Aids* No. 130. Free from SBA, Washington, D.C. 20416 (or nearest SBA Office).

"Training Retail Salespeople," *Small Business Bibliography* No. 23. Free from SBA, Washington, D.C. 20416 (or nearest SBA Office).

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